

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 ISO-00 L-03 COME-00 H-03 CIAE-00 INR-10

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LAB-06 STR-08 FTC-01 INT-08 SS-20 SP-03 NSC-07 CIEP-02

DRC-01 /111 W

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R 181505Z APR 74

FM AMEMBASSY TRIPOLI

TO SECSTATE WASHDC 1155

UNCLAS SECTION 1 OF 2 TRIPOLI 0441

E.O. 11652: N/A

TAGS: EIND EFIN LY

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: STATE 053993

SUMMARY. RESPONSES ARE MADE TO QUESTIONS POSED IN REFTEL
AND ARE NUMBERED CORRESPONDING TO PARAGRAPHS OF REFTEL.

4. INVESTMENT CLIMATE.

POLICIES THE LIBYAN GOVERNMENT HAS ENUNCIATED IN RECENT
YEARS INDICATE CLEARLY THAT LIBYA DOES NOT NEED DIRECT
FOREIGN INVESTMENT AND EVEN DISCOURAGES SUCH INVEST-
MENT, EXCEPT ON A HIGHLY SELECTIVE BASIS IN THE CRUDE OIL
SECTOR. NATIONALIZATIONS, SEQUESTRATIONS AND OTHER
GOVERNMENTAL INTERVENTIONS HAVE CREATED APPREHENSION
FOR ALL INVESTORS IN THE PRIVATE SECTOR OF THE CONOMY.
ARBITRARY COMMERCIAL PRACTICES AND REGULATIONS,
LACK OF LEGAL REDRESS FOR CONFISCATIONS OR FAILURE TO
FULFILL CONTRACTS, AND CANCELLATION OR INFLEXIBILITY
IN APPLYING CONTRACT TERMS, HAVE FURTHER WORSENERD THE
OUTLOOK. LACK OF COMPENSATION HAS, IN THE NON-PETROLEUM
SECTORS, INCREASED THE GLOOMINESS OF THE PICTURE FOR
THE WOULD-BE INVESTOR. THE ONE BRIGHT SPOT HAS BEEN
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THE PARTIAL COMPENSATION PAID TO INTERNATIONAL OIL

COMPANIES FOR THEIR PARTIALLY NATIONALIZED ASSETS. THIS COMPENSATION HAS BEEN BASED ON NET BOOK VALUE OF INVESTED ASSETS (NON-TANGIBLE ASSETS SUCH AS MARKETING PATTERNS, RISK, AND DOWNSTREAM FACTORS HAVE BEEN IGNORED) AND HAS BEEN TIGHTLY COUPLED WITH THE INTERNATIONAL OIL COMPANIES' FURTHER INVESTMENT IN EXPLORATION AND OIL FIELD DEVELOPMENT.

1) THE GOVERNMENT, WHICH HAS AMPLE DOMESTIC AND FOREIGN EXCHANGE ASSETS, DISCOURAGES OR PROHIBITS DFI IN LIBYA. SUCH INVESTMENT IS REGULARLY CONSIDERED TO BE A VIOLATION OF NATIONAL SOVEREIGNTY. THE PRIVATE SECTOR IS LIMITED TO THE IMPORT BUSINESS, SOME VPNSTRUCT-ION AND SOME MARGINAL PEASANT STYLE FARMING WHERE FOREIGN INVESTMENT WOULD HAVE NO ROLE.

2) THERE ARE NO INCENTIVES FOR DFI. ON THE CONTRARY, EXISTING POLICIES CALL FOR DIS-INVESTMENT BY FOREIGNERS. FOR EXAMPLE, ONE AMERICAN AND ONE GERMAN FIRM, EACH MANUFACTURING DETERGENTS, SOAPS AND TOILETRIES IN JOINT VENTURES (51 PERCENT PRIVATE LIBYAN BUSINESS-MEN--49 PERCENT FOREIGN INVESTMENT) UNDER CONTRACTS RUNNING TO 1976, HAVE BEEN INSTRUCTED TO SELL THEIR INTERESTS IN THE TWO VENTURES AND TO CONVERT TO LICENSING/MANAGEMENT ARRANGEMENTS.

3) THE FOREIGN FIRM DOES NOT HAVE THE CHOICE OF EITHER EXPORTING TO THE LIBYAN MARKET OR MANUFACTURING HERE; ECONOMIC REALITIES COMPEL IT TO SELL ITS FINISHED GOODS IN THE HIGH DEMAND LIBYAN MARKET. A FEW LICENSED GOODS, E.G. SOFT DRINKS, ARE PROCESSED LOCALLY.

4) NOT APPLICABLE TO LIBYA.

5) NONE, EXCEPT IN THE CRUDE PETROLEUM SECTOR. HERE, HOWEVER, CONSERVATION POLICIES ARE INFLUENCED BY A DESIRE TO KEEP PRICES UP AND TO EXTEND THE YEARS OF PROFITABILITY FOR THE INDUSTRY. SOME POLICIES HAVE BEEN ANNOUNCED FOR EXTENDING CULTIVATED LAND IN THE AGRICULTURAL SECTOR AND THE LIBYANS HAVE BEEN SEEKING

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EXPERTISE HERE FOR WHICH THEY WILL PAY CASH; NO INVESTMENT IS DESIRED.

6) TO DISCOURAGE AND ELIMINATE NON-PETROLEUM FOREIGN INVESTMENT.

7) JOINT VENTURES AND FOREIGN OWNERSHIP, EXCEPT IN PETROLEUM PRODUCTION, ARE PROHIBITED IN PRACTICE AND

POLICY.

8) THERE IS NO NEED FOR EXPORT CONTROL, LOCAL DEMAND IS SO INTENSE THAT THERE ARE NO EXPORTS. THE GOVERNMENT ATTEMPTS TO CONTROL INFLATION WITH WAGE AND PRICE CONTROLS, BUT SUCH CONTROLS HAVE LITTLE EFFECTIVENESS.

9) OUTSTANDING, FROM A BALANCE OF PAYMENTS POINT OF VIEW, AND BASED EXCLUSIVELY ON THE EXPORT OF CRUDE OIL AND ON THE CONVERSION OF EARNINGS THEREFROM INTO IMPORTED GOODS AND SERVICES. LIBYAN ECONOMIC PROGRESS WILL BECOME MORE REAL AS GROWING NUMBERS OF LIBYAN MANAGERS, TECHNICIANS AND WORKERS INCREASE THEIR CONTRIBUTIONS, SKILLS AND LABORS TO THE ALL-IMPORTANT PETROLEUM SECTOR AND RELATED INDUSTRIES.

10) GOALS FOR DEVELOPING PETROCHEMICAL, IRON AND STEEL, AND TEXTILE INDUSTRIES HAVE BEEN ANNOUNCED, BUT POLICIES IMPLEMENTING THESE GOALS HAVE NOT BEEN FORMULATED AND THE ECONOMIC VIABILITY OF SUCH PROJECTS HAS NOT BEEN ESTABLISHED. POLICIES ARE BEING DEVELOPED IN THE AGRO-BUSINESS SECTOR (GOVERNMENT OWNED) TO DECREASE LIBYAN DEPENDENCE ON FOREIGN FOOD SUPPLIES, EVEN AT AN ECONOMIC DISADVANTAGE.

11) NONE.

12) LIBYAN CITIZENS ARE GIVEN PRIORITY IN JOB AVAILABILITY AND FOREIGNERS ARE NOT GIVEN WORK PERMITS UNTIL THEY CAN ESTAB

SH THAT LIBYANS CANNOT PERFORM THE WORK.
IN PRACTICE, THIS MEANS ADMINISTRATIVE DELAY FOR BENEFICIARIES.
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FICIAL FOREIGN LABOR INPUT AND, SINCE THERE IS A SHORTAGE OF LIBYAN LABOR AT ALL SKILL LEVELS, DOES NOT ENHANCE THE POSITION OF LIBYAN LABOR. THE POLICY NEGATES LIBYAN ECONOMIC DEVELOPMENT.

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R 181505Z APR 74

FM AMEMBASSY TRIPOLI

TO SECSTATE WASHDC 1156

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13) NONE, EXCEPT FOR PROHIBITION ON PURCHASES OF GOODS FROM CERTAIN BLACKLISTED COUNTRIES.

14) NONE, ALL LOCAL PRODUCTION IS LOCALLY CONSUMED, EXCEPT FOR CRUDE PETROLEUM.

15) NOT APPLICABLE FOR LIBYA.

16) NOT APPLICABLE FOR LIBYA.

17) NOT USED BY LIBYA.

18) NONE.

19) NONE.

20) ASSETS OF ALL FOREIGN, PRIVATE INVESTMENT IN THE NON-PETROLEUM SECTOR HAVE BEEN EXPROPRIATED AND, WITH RARE EXCEPTION, COMPENSATION HAS NOT BEEN OFFERED. ANY ASSETS IN BANKS OR CASH HELD BY THESE PRIVATE INVESTORS HAVE BEEN INCONVERTIBLE THROUGH LEGAL CHANNELS. SOME COMPENSATION HAS BEEN MADE TO INTERNATIONAL OIL COMPANIES WHOSE PROPERTIES HAVE BEEN CONFISCATED AND THIS COMPENSATION HAS BEEN CONVERTIBLE.

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21) LIBYA HAS BEEN LIBERAL IN PAYING LICENSING FEES FOR TECHNOLOGY TRANSFERS.

5. INVESTMENT CONDITIONS FAVORABLE TO DFI IN THE NON-

PETROLEUM SECTOR DO NOT EXIST IN LIBYA AND WILL NOT EXIST IN THE FORESEEABLE FUTURE. ITS AMPLE CASH RESERVES PRECLUDE ANY NEED FOR FOREIGN CAPITAL, NATIONALISTIC POLICIES PREVENT ACCEPTANCE OF FOREIGN OWNERSHIP EXCEPT IN CRUDE OIL PRODUCTION. MANPOWER SHORTAGES AT ALL SKILL LEVELS KEEP THE GOVERNMENT FROM ADOPTING ANY POLICIES FOR INCREASED EMPLOYEMENT. SUBSTITUTION OF MANPOWER SAVING MACHINERY IS HINDERED BY LOCAL INABILITY TO MAINTAIN SUCH MACHINERY.

6. NO CHANGES NOTED IN THE NON-PETROLEUM SECTOR. SINCE THE LAST REPORT, THE OIL COMPANIES HAVE BEEN EITHER PARTIALLY OR FULLY NATIONALIZED AND, IN SOME CASES, COMPENSATION HAS BEEN PAID OR AGREED TO.

7. COVERED IN 4 ABOVE.

8. A. - PETROLEUM - \$1.5 BILLION.
- OTHER - NONE.

B. - TOTAL \$2 BILLION.
- EUROPEAN COUNTRIES - \$500 MILLION.

C. NEGLIGIBLE.
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Message Attributes

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